

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Milwaukee Water Works, Milwaukee County,
For Authority to Increase Water Rates

Docket No. 3720-WR-108

**DIRECT TESTIMONY OF ANDREW BEHM
ON BEHALF OF WHOLESALE CUSTOMER GROUP**

1 **Q. Please state your name.**

2 A. My name is Andrew Behm. I am consulting on behalf of the group of wholesale
3 communities: Brown Deer, Butler, Greendale, Menomonee Falls, Mequon, New Berlin,
4 Shorewood, Wauwatosa, and West Allis (the wholesale communities).

5 **Q. Describe your professional and educational background.**

6 A. I graduated from the University of Wisconsin - Madison in 2007 with a degree in
7 economics. I worked from 2008 through 2011 on the water staff of the Wisconsin Public
8 Service Commission (PSC) as a water rate analyst. In 2011, I joined the energy and
9 utilities team at Baker Tilly Virchow Krause as a consultant for energy and water
10 utilities. In 2013, I enrolled at the University of Wisconsin - Madison La Follette School
11 of Public Affairs in the Master of Public Affairs program.

12 **Q. What does your testimony cover?**

13 A. My testimony covers:
14 o wholesale customers' proposal to eliminate the differential rate of return;
15 o wholesale customers' proposal to eliminate the allocation of public fire
16 protection to wholesale customers; and

- the reason the wholesale customers' rate increase should be lower than MWW's retail customers' rate increase.

Return on Rate Base

Q. Please explain the wholesale customers' proposal to eliminate the differential rate of return.

A. In MWW's last rate case (Docket 3720-WR-107), the PSC approved a differential rate of return for MWW's retail and wholesale customers. In Kenosha Water Utility's recent contested water rate case, however, the PSC denied Kenosha's request for a similar differential rate of return. (Docket 2820-WR-106). The wholesale customers ask the PSC to deny MWW's request for a differential rate of return in this case.

Q. Why should the PSC deny MWW's request for a rate differential in this case?

A. In the past, water utilities providing wholesale service have asserted that they should be allowed to reduce the return on rate base collected from their retail customers below the level of return on rate base that they collect from their wholesale customer classes. For a given revenue requirement, recovering less of the return on rate base from retail customers means that more of the return must be recovered from other classes. This constitutes a subsidy for retail customers. By lowering the return on rate base for retail customers, MWW reduces the retail customers' rates. However, by lowering retail rates, costs are shifted to wholesale customers to recover the same total revenue requirement. The costs shifted to wholesale customers are not reasonably justified by the costs to serve the wholesale communities, but arise only because of MWW's desire to lower the rates of retail customers.

1 **Q. Do the wholesale customers already make payments that could be viewed as**
2 **subsidizing the City of Milwaukee?**

3 A. Yes, MWW's authorized rates recover a payment in lieu of taxes (PILOT) that is paid to
4 the City of Milwaukee. Since 2010, the PILOT to the City has increased \$3,311,828,
5 from \$10,345,000 to \$13,656,828. Under MWW's cost of service study submitted as
6 PSC REF#: 205539, the wholesale customers' rates would include approximately
7 \$1,632,765 to pay for PILOT payments to the City of Milwaukee.
8 There is no reason to charge the wholesale customers a rate of return higher than
9 MWW's retail customers in order to further compensate Milwaukee.

10 **Public Fire Protection**

11 **Q. Please explain the wholesale customers' proposal to eliminate public fire protection**
12 **charges to the wholesale customers.**

13 A. The PSC normally separates the cost to provide water for normal use to metered
14 customers from the additional cost to provide large, unmetered volumes of water to the
15 municipality to fight fires. In the past, the PSC has mostly found it reasonable to share
16 the cost of water for fighting fires with wholesale customers. In certain cases, however,
17 where the wholesale customer had its own storage and did not demand large amounts of
18 water from the wholesale supplier for fire protection, the PSC has allocated only a
19 portion of this fire protection cost to the wholesale customer. In the recent Oak Creek
20 contested rate case (Docket 4310-WR-104), the PSC did not allocate any fire protection
21 cost to one of the wholesale customers.

22 **Q. How does MWW propose to allocate the cost of water for public fire protection to**
23 **the wholesale communities?**

1 A. MWW proposes to allocate the cost of water for public fire protection the way it was
2 done in its prior rate case. In Docket 3720-WR-107, the PSC estimated the peak water
3 consumption for fire-fighting for Milwaukee and allocated costs to public fire protection.
4 The PSC then allocated these public fire protection costs to Milwaukee, and the suburban
5 retail and wholesale communities. The PSC allocated costs to the different communities
6 based, in part, on the estimated peak water consumption needed for fire-fighting in each
7 community. The estimate of peak water consumption needed for fire-fighting was based
8 on the population of each community.

9 Allocating the cost of water for public fire protection to communities based on each
10 community's population glosses over differences between fighting fires in retail and
11 wholesale communities. It also glosses over differences in the way retail customers and
12 wholesale customers pay for water for fire-fighting.

13 First, when a fire department uses water to fight a fire in Milwaukee or one of the retail
14 communities, MWW's system must immediately supply water to meet the demand. This
15 water generally is provided by pumping out of ground storage. In contrast, when a fire
16 department in a wholesale community uses water to fight a fire, the water to meet the
17 demand does not immediately come from MWW's system. Wholesale communities
18 generally provide the water out of storage, and they draw water to replenish storage at
19 another time. Allocating the cost of water for fire-fighting based on population ignores
20 the difference in MWW's responsibility to provide water for fire-fighting in the retail
21 area compared to in the wholesale area.

22 Second, when a fire department uses water to fight a fire in MWW's retail system, the
23 water comes from MWW's retail distribution system and is unmetered. The only revenue

1 MWW collects to offset the cost of this water is through the public fire protection charge.

2 In contrast, when a fire department uses water to fight a fire in MWW's wholesale
3 system, the water comes from the distribution system of the wholesale community, after
4 it has already been metered. The wholesale community already pays for each gallon of
5 water used to fight the fire.

6 Charging the wholesale communities for public fire protection based on relative
7 population ignores the payments wholesale communities already make to MWW for
8 water used for fire-fighting.

9 **Q. How should the PSC allocate the cost of water for fighting fires?**

10 A. The PSC should not allocate the cost of water for fighting fires to wholesale
11 communities. Wholesale communities meet their own demand for fire protection in
12 excess of general consumption out of elevated reservoirs. They then draw water to
13 replenish elevated reservoirs, but this water is drawn consistent with normal, general
14 consumption. Wholesale communities already pay the costs of water demand with
15 normal, everyday characteristics through the general service rates.

16 **Reasonableness of Lower Rate Increase for Wholesale Customers**

17 **Q. How do the changes wholesale communities have proposed to MWW's cost of**
18 **service study impact the rate increases for the wholesale communities?**

19 A. The adjustments proposed by the wholesale customers to MWW's cost of service study
20 would reduce, and may in some cases eliminate, the rate increases calculated for the
21 wholesale communities.

22 **Q. Would it be reasonable for the water rate increase for the wholesale customers to be**
23 **lower than the water rate increase for retail customers?**

1 A. Yes. In fact, it would be unreasonable if the water rate increase for wholesale customers
2 were not lower than the water rate increase for retail customers.

3 **Q. Why do you say that?**

4 A. MWW's water rate increase is primarily driven by spending that benefits retail
5 customers, not wholesales customers.

6 **Q. What is driving MWW's need for a water rate increase?**

7 A. MWW's proposed water rate increase is driven by its increased capital expenditures.
8 MWW's spent \$61,812,889 on capital assets from 2010 through 2014. These capital
9 expenditures increased the revenue MWW requires for return on rate base, depreciation,
10 and payment in lieu of tax and are the reason for MWW's requested water rate increase.
11 MWW's water increase is not driven by decreasing revenues or increasing operating
12 expenses. MWW's revenues are increasing and its operating expenses are decreasing.
13 The rate order issued by the PSC in MWW's last rate case (Docket 3720-WR-107) (PSC
14 REF#: 144469) approved rates that were forecast to produce revenues of \$84,191,771 in
15 2010. PSC staff forecast that MWW's existing rates would produce revenues of
16 \$85,521,726 in 2014, an *increase* of \$1,329,955 (PSC REF#: 203844). For operation and
17 maintenance expenses, the PSC's last rate order forecasted operation and maintenance
18 expenses of \$50,243,011 in 2010. PSC staff has forecasted operation and maintenance
19 expenses in 2014 of \$49,028,671, a *decrease* of \$1,214,340.

20 **Q. What infrastructure did MWW spend money on from 2010 through 2014?**

21 A. MWW's capital expenditures from 2010 through 2014 were primarily in four categories:
22

- meters (Account 346) spending of \$7,596,083 from 2010 through 2014;
- hydrants (Account 348) spending of \$4,802,282 from 2010 through 2014;

23

1 • electric pumping equipment (Account 325) spending of \$13,695,443 from 2010
2 through 2014; and

3 • water mains (Account 343) spending of \$36,131,229 from 2010 through 2014.

4 Of MWW's spending on water mains, 69.1% of that spending was on mains 12 inches or
5 smaller in diameter, and 30.9% of spending was for mains 16 inches or larger in
6 diameter. (PSC REF#: 204429, Tab CIAC Analysis of MWW's cost of service study,
7 which gives insight into the nature of capital spending on water mains for 2010, 2011,
8 and 2012.)

9 **Q. Do you claim that there is anything wrong in MWW's capital infrastructure**
10 **spending?**

11 A. No. I support MWW's efforts to replace failing infrastructure, and I do not dispute its
12 judgment of the need of these capital expenditures.

13 **Q. Do MWW's capital additions from 2010 through 2014 provide service to wholesale**
14 **communities?**

15 A. Most of MWW's capital additions during this period benefit retail customers, rather than
16 wholesale customers. Wholesale communities do not benefit from spending on retail
17 water meters or fire hydrants located within MWW's retail area or from spending on
18 MWW's mains 12 inches or smaller in diameter.

19 The only capital additions that provide benefits to the wholesale customers, in addition to
20 the retail customers, are spending on electric pumping plant and spending on the larger
21 mains 16-inches or larger in diameter.

22 **Q. Why is that relevant to this rate case?**

1 A. Under the PSC's base-extra capacity rate-making model, costs are allocated to function
2 and then to customer class. Under this model, the majority of the costs related to the new
3 capital additions will not be allocated to the wholesale customer class – and therefore
4 should not increase the wholesale customers' allocated share of costs.

5 Ex.-Wholesale Customers-Behm-1 summarizes the capital additions from 2010 through
6 2014 that drive MWW's need for a rate increase and the part of these capital additions
7 that, based on MWW's calculation to which the wholesale communities have not agreed,
8 provide service to wholesale communities.

9 **Q. Then why under MWW's proposed cost of service (PSC REF#: 205539) do MWW's**
10 **wholesale customers' rates go up so much more than MWW's retail customers'**
11 **rates?**

12 A. That's a good question. In MWW's cost of service study (COSS) (PSC REF#: 205539),
13 MWW calculates a cost to serve wholesale communities (including public fire protection
14 and excluding the county institutions) that is \$2,710,383 greater than revenue at present
15 rates. The total rate increase requested is \$9,253,824. Under MWW's COSS in PSC
16 REF#: 205539, the wholesale communities would be responsible for 29.3% of the
17 proposed rate increase. The reason that the wholesale customers' share of the rate
18 increase is so high, even though most of the costs that are driving the rate increase do not
19 benefit the wholesale customers, is that the COSS MWW submitted as PSC REF#:
20 205539 treats several calculations differently than the PSC's approved cost of service
21 study from Docket 3720-WR-107. These changes individually and collectively shift
22 costs to wholesale communities that are actually incurred to serve retail customers.

23 **Q. What changes from MWW's last rate case are causing wholesale rates to increase?**

1 A. MWW's cost of service study includes two important changes from the cost of service
2 study approved by the PSC in 2010. First, MWW changed the allocation of capital costs
3 for water mains to transmission and distribution from its actual values based upon
4 MWW's records to an assumption to allocate water main costs by length weighted by
5 diameter. Patrick Planton and Eric Rothstein offer further testimony on this issue.
6 Second, MWW's current cost of service study changes customer class demand ratios for
7 retail and wholesale classes. Mr. Planton and Mr. Rothstein also offer testimony on this
8 issue.

9 In addition, MWW is asking for a significantly larger return on rate base than it was
10 granted in 3720-WR-107. Because of the changes mentioned above, MWW shifts the
11 allocation of rate base from its retail customers to wholesale customers. MWW then
12 proposes that a higher rate of return be charged to the wholesale customers. The higher
13 rate of return on the higher rate base allocated to wholesale customers increases the
14 burden to the wholesale communities. MWW protects its retail customers by reducing
15 the retail customers' share of rate base and also reducing the rate of return charged to it.

16 **Q. Do you believe that MWW's water rate increase for the wholesale customers is**
17 **reasonable?**

18 A. I do not believe that MWW's water rate increase for the wholesale customers is
19 reasonable.

20 **Q. Does that conclude your testimony?**

21 A. Yes it does.